

Society for College and University Planning  
**P3 Performance for Higher Education**  
SCUP Fellow Research Project Final Report

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SCUP Fellow 2016–2017

FELLOW

## **Society for College and University Planning P3 Performance for Higher Education SCUP Fellow Research Project Final Report**

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Society for College and University Planning  
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### **ABOUT THE SOCIETY FOR COLLEGE AND UNIVERSITY PLANNING (SCUP)**

The Society for College and University Planning is a community of higher education planning professionals that provides its members with the knowledge and resources to establish and achieve institutional planning goals within the context of best practices and emerging trends. For more information, visit [www.scup.org](http://www.scup.org).

### **WHAT IS INTEGRATED PLANNING?**

Integrated planning is a sustainable approach to planning that builds relationships, aligns the organization, and emphasizes preparedness for change.

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### MEET NICOLAS DE SALABERRY



### WHAT PROMPTED YOUR CHOICE OF RESEARCH TOPIC?

Public-Private Partnership (“P3”) procurement models for built infrastructure serving higher learning institutions started to gain attention in North America in the late 1990s—mostly as an alternative approach to adding student housing at select universities and colleges. More recently, P3 models have been applied to a diverse range of higher learning projects, with some serving core academic and research functions.

Although many institutions are considering P3 approaches among their options to address emerging pressures to expand or update their facilities, their implementation is not yet common. My intention was to better understand P3 models and learn how they have performed, possibly generating some useful lessons for how P3 models can be applied with desired outcomes.

### HOW DID YOU APPROACH AND CARRY OUT YOUR RESEARCH PROJECT?

Prior to embarking on the research I consulted with my coaches as well as a handful of leaders at Ryerson University. The approach was not intended to be a formal performance evaluation but instead a qualitative analysis of themes and issues that would complement materials already available from SCUP and other reputable sources.

Following the initial research design, a review of papers and presentations—mostly from SCUP and the National Association of College and University Business Officers (NACUBO)—was conducted. Data was collected via long-form interviews with respondents holding different perspectives: administrators, developers and facilities managers.

### HOW DID YOUR SCUP COACHES SUPPORT YOU IN YOUR PROJECT?

I think the SCUP coaches were indispensable. Both Krisan Osterby (DLR Group) and Antonio M. Calcado (Rutgers University) provided valuable feedback on the interview guide and general approach. As the work progressed, encouragement and pointers were shared. The coaches also were helpful with suggesting interviewees to achieve a broad range of perspectives. They also provided moral support that was especially appreciated in the weeks before the conference presentation.

## HOW DID THE SCUP FELLOWS EXPERIENCE IMPACT YOU PERSONALLY?

This experience strengthened my interest in questions of how our sector will achieve facilities improvements in the medium and long term. It also enriched my understanding of what can be learned between colleagues. People's generosity of time, as well as the wealth of insights, really showed their commitment to a

shared mission of continuous improvement of higher learning. I feel fortunate to have had direct contact with such dedicated and thoughtful practitioners.

Additional personal growth occurred through the experience of presenting findings at the conference and the challenges associated with inserting a research project into a busy work-life schedule.

## THE PROJECT

### WHAT DOES P3 MEAN TO HIGHER EDUCATION?

Before determining whether a P3 solution is appropriate, I believe planners and their colleagues need to understand how P3 arrangements are different from traditional procurements. This starts with the fundamentals of P3 solutions, captured within the definition from the Canadian Council on Public-Private Partnerships:

“A cooperative venture between the public and private sectors, built on the expertise of both partners, that best meets clearly defined public needs, through the appropriate allocation of resources, risks, and rewards.”  
(CCPPP—see link at bottom)

A consequence of such a broad definition is that some may find the lack of specificity renders it difficult to interpret. Furthermore, the definition doesn't speak to the financial motivators that all respondents identified for why a P3 was considered. These financial motivators can be key differentiators from a typical contractual agreement. Among the projects that I researched, access to funds, access to better borrowing rates or access to alternative credit sources were central decision points on whether to embark on a P3. For this reason, in several instances, those responsible for the non-financial aspects of project execution were essentially required to utilize a P3 procurement model that was selected by decision-makers focused primarily on financial matters.

On the other hand, the definition provides a reminder of the key elements of a successful P3; it is up to the institution to claim the up-front control that comes with defining the need(s), clearly identify in what areas its expertise will prevail, and ensure that all parties have essential roles to play in making the partnership work throughout the duration of the agreement. Furthermore, the definition provides considerable flexibility for creativity that has clearly been applied within the higher learning sector (see examples in the table, below).

The caution for college and university planners is to neither accept nor dismiss P3s before properly understanding the specifics (including finances) of a potential P3 approach and how it might meet their organization's mandate, policies, and needs.

### MANY MODELS TO CHOOSE FROM

Prior to undertaking this project, my understanding of a P3 solution for built infrastructure was that normally at least two of the following services would be involved: Design, Build, Finance, Operate, and Maintain. A sixth category, provision of (privately owned) Land, emerged from the research. Which of these and how they are arranged will reflect the particular circumstances of a project. Typically, the more services that are assumed by the private partners, the greater the financial risk transfer achieved for the institution.

A lot of effort has been made by others to provide accessible descriptions of the most common models (and deal structures), so I encourage readers to look at the links included at the bottom. There are however too many variations of models to provide a comprehensive listing or typology of all models.

Figure 1 shows how the six services are reflected in a handful of recent P3 projects in different jurisdictions. Additionally, the table includes a column showing where there is a component of direct revenue generation for the institution. Beneath the table I have added some observations and findings.

Figure 1

Example Projects	Common Characteristics							Comments	
	Design	Build	Finance	Operate	Maintain	Land	Revenue		
	D	B	F	O	M	L	\$		
<b>Sheridan College (ON)</b> – Hazel McCallion II, mixed use campus expansion								With funds from the Province of Ontario.	
<b>University of Toronto at Scarborough (ON)</b> – Toronto Pan Am Sports Centre								With funds from the Province of Ontario. Operating agreement with the City of Toronto. Land partly supplied by the City of Toronto.	
<b>Drexel University (PA)</b> – three student residences (and retail)								40-50 year terms with options to extend to 70 years. Drexel also has a hotel project and a child-care mixed-use project. <i>Private institution.</i>	
<b>The Ohio State University (OH)</b> – Parking facilities								50-year agreement.	
<b>York University (ON)</b> – The Quad student residences (and retail)								70-year agreement between the developer and the York University Development Corporation.	
<b>University of Washington (WA)</b> – School of Medicine (Biomedical Research Campus) 4 projects								Developer-role filled by a non-profit 501(c)3 company. 45-year land lease. National Development Corporation financing solution.	
<b>University of California at Merced (CA)</b> – Mixed use (doubling size of facilities)								35-year agreement. <i>Phased completions, 2018-2020.</i>	
<b>Emily Carr University of Art and Design (BC)</b> – mixed use campus								30-year agreement.	
		Developer-led							Third-Party Agreement

**Of the many P3 models, none can be identified as best for higher learning.** The table clearly shows that each circumstance is quite different from the next and that no model is “best” for higher learning. Each reflects contextual differences including jurisdiction, project specifications (including size), an institution’s financial strength, the competitive climate for potential bidders, urgency, and more.

**P3 models that generate revenue for institutions have trade-offs.** Since the financial motivators for embarking on a P3 are so great, I believe it is important to clarify that even where a P3 generates revenue (or is “cost neutral”) for an institution, trades-off and potentially contentious decisions are likely. For example, if student housing is provided by a third-party developer (as at York and Drexel above) the institution will usually have less control over affordability or reduced control over some aspects of how student life is supported. Respondents made it clear that most trade-offs were known but some resulted in “lessons learned.”

**Long-term agreements are not always required** but are present if there is a “Maintain,” “Operate,” “Land,” or “Revenue” component (highlighted in blue in the table) to the agreements; this provides private sector partners an opportunity to obtain a return on their investment.

In some instances, as part of their business plan, developers introduced methods that are different from an institution’s norm. For example, many P3 student residences also have a private operator who may not be directly accountable to the institution. Furthermore, these residences might offer services or have standards (e.g., branding) that differ from the institution’s approach. In all examples, the original source of revenues predominantly came from students by way of rents or via purchases. (In some instances, at Drexel for example, the residence accommodates students from other institutions as well as recent graduates.) Of course, this could also mean a developer could have higher standards than followed by an institution—for example, the manner and frequency of housekeeping and maintenance.

**There is no consensus on how broadly P3s can be applied within higher learning.** Some respondents saw no limits on how P3s could be applied, but others commented that core academic facilities (e.g., classrooms, libraries, labs) are less well suited to partnering models due to their customized elements and the potential for adjustments to them during their lifecycle. The “standard” components of an institution (e.g., offices, parking, residences) were considered more likely to benefit from P3 solutions and would not threaten an institution’s existence if the deals were to run into trouble.

In my view, as with any important procurement, the key questions for institutions relate to how their mandate is best served, requiring a comprehensive understanding of what is gained or given up by a particular P3 model before it is adopted. Whatever the chosen P3 model that was being applied to a project, it was clear that universities and colleges were turning to P3s out of necessity and were not of the view that P3s are appropriate or desirable for all projects.

### P3S BRING CHANGES

One of the most important considerations for planners is that P3 approaches are not mere procurement options; they represent significant potential changes in how institutions improve and expand the spaces they use. As one respondent said, the P3 approach they used has “Shaken up thinking on how we grow.” Planners need to be prepared for the many ways that the changes will be welcomed or resisted while also anticipating some of the practical issues that will need attention. Here are a handful of key changes planners can expect—some are more germane to P3 approaches than others.

**Does growth need to happen on campus?** For many institutions, strategic priorities and land acquisition costs have kept the focus on developing lands they own or control, often as part of a campus. While there are several examples

of on-campus P3 projects, I found examples of highly creative projects happening off-campus or on satellite campuses.

One benefit of off-campus growth that several respondents discussed was how this option has opened opportunities for their institutions to be more engaged with their surrounding communities (principally through economic renewal) and less perceived as a separate community. Examples include recent developments at Rutgers University and Brown University, as well as Drexel University (listed in table above).

**P3 models can have a disruptive effect** on the usual course of internal institutional competition for space by changing key considerations in how project approvals are prioritized. Where campus administrators are commonly working to balance needs against scarce resources, some P3 arrangements have offered a way to side-step the jockeying that occurs by exposing the institution to less financial risk or requiring different resources. For example, the University of Washington's School of Medicine's decision to proceed with an off-campus P3 solution effectively removed it from the usual queue of campus projects needing attention. (See link at bottom for more about this project.) Alternatively, some institutions have found ways to join needed non-academic services (e.g., child care) to larger mixed-use projects, thereby meeting needs that might otherwise languish.

**P3s can accelerate development.** In addition to potentially side-stepping the internal competition for approvals (and resources), P3s are changing expectations for the duration of project development and completion. This is in part because such projects often include elements that motivate all parties to complete a project on time. Motivators can include penalties for delays and constraints on making changes after contract award, but timeliness is also believed to be achieved by involving experienced developers who apply their expertise with municipal approvals, contract management and decision-making. The caution for planners is to invest the up-front effort understanding the P3 solution (including the contracts) in the pre-development stage

in order to leverage the potential for efficiencies once the development is underway. (See link below for Jill Morelli's presentation comparing two projects at the UW.)

**P3s may require institutions to replace control with influence** in parts of the project lifecycle. It is essential that institutions understand what degree of control they are prepared to give up in order to attract a private partner.

Several respondents demonstrated a highly pragmatic approach to working with the reduced control a P3 approach would mean for realizing projects. Even so, it was clear that trade-offs had not always been fully grasped prior to undertaking the project and this resulted either in friction during the development or in "lessons learned" about how future projects could be realized.

In a somewhat extreme case, an off-campus P3 housing project at a Canadian university was initiated without input from the housing operations team who were expected to operate the facility after construction. As completion approached and operational issues became increasingly evident, the university terminated the partnership and bought out the developer.

An example with less dire results involved an on-campus project in the U.S. in which design was controlled by the developer and post-completion adjustments were required by the institution's facilities staff to their new building. The issue was the different hardware and maintenance choices made by the design-build team. This resulted in additional costs and led to recommendations for how to prevent this occurring again.

The shift from control to influence appeared best understood for P3 projects involving an experienced P3 agency or consultant. While some of the changes were distasteful, they were known and accepted in advance; for example, institutions participating in Ontario's 2015 Pan Am Games projects had significant control over specifications but these



needed to be settled fully five years prior to hand-over. After the projects were awarded, the institutions acted from a position of influence, essentially able to comment on progress but accepting that so long as their specifications were being met, final decisions were in the hands of the developer partners.

On a more positive note, one respondent who understood the practical realities of accepting a P3 solution for a major campus expansion noted that the arrangement allowed the university to focus on what it does best—teaching, research and student life—and leaving the complexity of construction and maintenance to the developer.

In my view, planners are well positioned to provide leadership in determining the limits of what changes an institution can bear, working closely with colleagues in other departments and possibly also with experienced consultants. Additionally, planners are well-positioned to provide leadership in evaluating the implementation of a P3 in order to ensure accountability and record lessons learned for future projects.

### DIFFERENT EFFORT REQUIRED

A number of responses revealed the different kinds of effort needed to implement P3 solutions. Respondents generally expressed few regrets about the actual model selected, but did signal they would be better prepared if another project came about.

#### **Success is tied to a project's alignment with needs.**

Greater internal alignment between the institution and what is most needed from a project makes a tremendous difference. While that could be said for all projects, for a P3 project early clarity on needs and desired outcomes is crucial because changes are often difficult and potentially very costly—especially where there's a multi-decade agreement.

**Higher amount of pre-project effort than thought possible.** Some respondents spoke about the higher amount

of pre-project effort required to execute a P3 than more traditional project procurements. This was in part due to unfamiliarity with the P3 approach by the institution as well as by the private partners. Examples include sorting through complex contractual agreements and dealing with unfamiliar questions related to a development with different controls than a more “traditional” development. There were also comments calling for more pre-development effort as a means to avoid unfortunate circumstances that, in one case, led to the termination of the P3 arrangement before the project even became operational.

As part of any pre-development phase, after determining the needs that a project will meet, addressing a handful of questions that relate to P3 arrangements will help determine whether a P3 is even possible and what model of P3 (including deal structure) is most desirable. This is an exercise that might be best conducted with the guidance of an experienced P3 consultant as the questions (and answers) will vary from one institution to another.

Examples of key areas for consideration include site location, timing/urgency, mission orientation (institutional alignment), tolerances for risk/return/control, availability of expertise (capacity), and financial capacity. A detailed review of these and possibly other questions will help an institution prepare itself and potential partners for what kinds of P3 opportunities are possible or likely to succeed. They are also a useful starting place for the internal communications process of preparing a college or university for the kinds of changes that could come with a P3 solution.

**Contractually quite challenging.** Several respondents mentioned how contractually challenging their P3 agreements were. This is both a reflection of being a new approach requiring learning for all parties and the reality that the agreements tend to be very detailed and complex because of the breadth of services and (where applicable) the intention for them to survive for decades. In one instance, a U.S. university took the unusual step of requiring members of

its senior project team to remain in their positions until the project was complete, in large part because of the complexity of the contracts would cause an impossible learning curve in the event of a replacement.

### **Managing institutional memory over the long**

**term.** There is a new risk that comes with the long-term P3 agreements—that of managing institutional memory. Long-term P3 agreements need to have ways to manage beyond the generation of people who lead the original development. Consider a new campus like the University of California at Merced (listed in the table above)—adding 1.2 million SF and a 35-year management contract. Who will manage the contract in year 25?

### **CONCLUSION**

The above notes provide a brief treatment of some of the complexities of P3 solutions for higher learning. The emphasis here has been on the non-financial characteristics of P3s, but as these are business transactions, there is arguably some financial relevance to all aspects of a P3 solution.

Given the variety of projects and the expected need for improvements or expansions of space for fulfilling their missions, universities and colleges considering a P3 solution must undertake a detailed examination of the proposed solution prior to proceeding. Furthermore, those who have embarked already will greatly aid the sector by providing candid and fulsome insights to the performance of their projects for the benefit of the entire sector and most of all for the benefit of their mission to serve students.

### **WHAT SPECIFICALLY DID YOU LEARN FROM YOUR RESEARCH THAT OTHER PLANNERS SHOULD KNOW AND WILL BENEFIT THEM IN THEIR WORK?**

I learned that there is urgency for planners to better understand Public-Private Partnerships (“P3s”) because they are complicated and because they are being applied to a broader suite of projects. P3s are complex and defy simplistic assessments. As they offer alternative financial solutions for current and emerging needs, they are having a growing influence on the way university and college decision-makers think about facilities improvements and expansion.

My intent in the article above is to make my findings accessible for readers. To do so I’ve arranged my thoughts around the following four key findings:

- » P3 can mean many things, but for institutions financial matters were the primary attraction.
- » There is no P3 model that is ideal for higher learning. Instead, there are many different P3 models and this makes a simple typology difficult to achieve.
- » P3 approaches have the potential to cause major changes in how universities and colleges plan their improvements and growth.
- » P3 projects require a different kind of effort, which can be considerable.

## REFERENCES

**Articles with thoughtful content related to P3s serving universities and colleges:** Stephens, Jennifer H. 2015. "Significant Themes Threading Through Discussions on Public-Private Ventures." *Planning for Higher Education Journal*, Ann Arbor, MI. January-March. pp. 71-81.

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**Sources of Information about P3s, including definitions, models, policy papers and examples:** National Council for Public-Private Partnerships: <http://www.ncppp.org/>; The Canadian Council on Public-Private Partnerships: <http://www.pppcouncil.ca>.